

Cluster-Based Approach to Economic Development

What are industry clusters?

Groups of competing, collaborating, and interdependent businesses in-like or linked industries, which are concentrated in a geographic region. The competitiveness of member firms is enhanced through access to shared infrastructure, appropriately skilled workers, and knowledge (including but not limited to market knowledge, organizational and managerial best practices, and product innovations).

Demand conditions of the cluster are important. Sophisticated and sufficient demand will drive innovation once a cluster is developed. Factor conditions (especially pool of skilled labor) are enhanced through clustering, and rivalry drives innovation (product, process, and organizational). Finally, local access to internationally competitive supporting industries provides early-in opportunities and enhances the ability to compete.

Why are clusters important?

- Represent the specialization and comparative advantage of a region
- Offer a focus to attract new investment, encourage local expansion, and stimulate startups
- Foster innovation to drive growth and development of pools of talent and skills
- Means of speaking with one voice on specific issues associated with the regions' various economic clusters

Four stages of industry cluster strategies

Stage 1: Mobilization – Building interest and participation among different regional constituencies needed to carry out the initiative.

Stage 2: Diagnosis – Assessing the industry clusters that comprise the regional economy and the regional economic infrastructure that supports cluster performance.

Stage 3: Collaborative Strategy – Convening demand-side stakeholders (companies in each cluster) and supply-side stakeholders (public and private supporting economic institutions) in working groups to identify priority challenges and action initiatives to address shared problems.

Stage 4: Implementation – Building commitment of cluster working group participants and regional stakeholders to actions and identifying or creating an organization to sustain implementation.

Source: Information Design Associates and ICF Kaiser (1997)

Example: WA Wine cluster

- Vineyards
- Educational, research and trade organizations
- Producers of farm equipment, irrigation technology, and fertilizers, pesticides, etc.
- Producers of winemaking equipment
- Producers of barrels, bottles, caps, corks
- Processing facilities